

City of Detroit

CITY COUNCIL

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ANNE MARIE LANGAN
DEPUTY DIRECTOR
(313) 224-1078

TO: Shirley V. Lightsey, President
Detroit Retired City Employees Association

FROM: Irvin Corley, Jr., Fiscal Analysis Director *ly.*

DATE: April 29, 2010

RE: 2010-2011 Budget Analysis

Attached is a copy of our analysis regarding the information included with your letter indicating the Association's position to forego any request to improve pension or benefits for general city retirees.

Your Budget Hearing before Council is scheduled for **Friday, April 30, 2010 at 2:00 p.m.**

Please contact us if you have any questions regarding our analysis.

Thank you for your cooperation in this matter.

IC:jgp:ss

Attachment

cc: Councilmembers
Council Divisions
Auditor General's Office
Norman White, Chief Financial Officer
Pamela Scales, Budget Director
Renee Short, Budget Department
Walter Stampor, Retirement System Manager
Joseph Martinico, Labor Relations
Kamau Marable, Mayor's Office

Detroit Retired City Employees Association

FY 2010-2011 Budget Analysis by the Fiscal Analysis Division

Detroit Retired City Employees Association (DRCEA) 2010-2011 Proposal and Costs

In the DRCEA's letter to the City Council dated April 28, 2010, the association foregoes requesting any increased pension or benefit increases for general city retirees to be included in the 2010-11 budget.

While the DRCEA is not making a formal request for pension or benefit increases for retirees in the current year, they have provided two actuarial studies that outline the costs of increasing the multiplier to be used in calculating the pension for pre-July 1, 1992 retirees. The proposal's costs are summarized below and illustrate how costly pension increases can be.

For pre-July 1, 1992 retirees	DRCEA Proposal I (illustrative only, not formally requested)	DRCEA Proposal II (illustrative only, not formally requested)
Detail of change	Increase multiplier for years of service over 10 years to 1.7% (currently 1.63%)	Same as Proposal I and Increase multiplier for years of service over 20 to 1.9% (currently 1.63%)
1 st Year Cost (Gen Fund + DOT)	(1) \$624,803	\$1,496,709
1 st Year Cost Other Funds (Water, Sewage, Library)	(2) \$130,996	\$313,190
1 st Year Cost Total	<u>\$775,799</u>	<u>\$1,809,899</u>
Increase in Total actuarial accrued liabilities (GF + DOT)	(1) \$7,043,754	\$16,882,291
Increase in Total actuarial accrued liabilities Other Funds	(2) <u>\$1,467,019</u>	<u>\$3,528,134</u>
Total Increase actuarial accrued liabilities	<u>\$8,510,773</u>	<u>\$20,410,425</u>

- (1) First year and total cost over 15 years that would be paid from general operating millage taxes.
- (2) First year and total cost over 15 years that would be paid from Water and Sewage rates and special Library operating millage.



Detroit Retired City Employees Association

Representing Detroit City Retirees Since 1960

P.O. BOX 40713 • Detroit, MI 48240-0713 • 313-927-0491

April 28, 2010

Honorable City Council
City of Detroit
Coleman A. Young Municipal Center
Thirteenth Floor
2 Woodward Avenue
Detroit, Michigan 48226

SUBJECT: City of Detroit 2010-2011 Budget

Thank you for taking time from your extremely busy schedule to meet with representatives of the Detroit Retired City Employees Association (DRCEA) on Friday, April 30, 2010 at 2:00 P.M. to discuss the concerns of General City Retirees.

Each year when DRCEA officials meet with City Council at budget development time, we present a request for some improvement in retiree pensions or medical benefits. **BUT NOT THIS YEAR!**

At no time in living memory has the DRCEA not requested some benefit increase for General City Retirees. However, Budget Year 2010-2011 is different. We realize the very difficult financial situation you face and that funds may not be available at this time to pay for improved retiree pensions or benefits; however much as they are needed. As the City of Detroit's fiscal condition improves in future years, the DRCEA will renew its efforts to improve the pensions and benefits of General City Retirees.

Over the years, as our older retirees began slipping into hardship and poverty due to their pensions not keeping up with the Cost of Living, the DRCEA rose to the situation and requested funding to improve the pension of retirees who retired prior to July 1, 1992.

- On July 1, 1992, retirees who had retired prior to that date had their service factor increased from 1.4% to 1.5% of their average final compensation (AFC),
- On July 1, 1996, the service factor of retirees who retired prior to July 1, 1992, was increased from 1.5% to 1.56% of AFC.

- On July 1, 1997, the service factor of retirees who retired before July 1, 1992, was increased from 1.56% to 1.63%.
- On July 1, 2007, the minimum pension of our very poorest retirees was raised to assure them a straight life pension of \$8,100 after 30 years of City Service.

Meanwhile, active employees who retired on or after July 1, 1992 gained significantly better pensions.

- Retirees from July 1, 1992 to June 30, 1998, receive a pension based on 1.5% of AFC for the first 10 years of service, 1.7% of AFC for the next 10 years, and 1.9% of AFC for all remaining years of service.
- Retirees on or after July 1, 1998, receive a pension based on 1.6% of AFC for the first 10 years of service, 1.8% of AFC for the next 10 years, 2.0% of AFC for years 21 through 25, and 2.2% of AFC for all years of service over 25 years.

For a more detailed description of the three (3) different Pension Plans in effect for General City Retirees see the enclosed Attachment A.

The pension factor improvements of 1.5% to 1.56% of AFC and then to 1.63% of AFC gained by pre-July 1, 1992 General City Retirees were not won without a fight. The City Council appropriated the funds for these pension increases in the 1996-97 and 1997-98 Budgets. The Dennis Archer Administration challenged the authority of the City Council to grant pension improvements to existing retirees by filing a lawsuit in Wayne County Circuit Court. After a lengthy court battle the City Council won the lawsuit at both the Circuit Court level and Michigan Appeals Court level. The DRCEA filed an amicus brief supporting the City Council action in this case. The pension increases were finally implemented in February, 1999 and November, 1999.

Enclosed herewith are two (2) actuarial valuation reports prepared by Gabriel, Roeder, Smith and Company at the request of DRCEA and designated as Attachment B. The first provides the cost estimate to increase the pension factor from 1.63% to 1.7% of AFC for all service years over ten (10) for pre-July 1, 1992 retirees. First year General Fund cost is \$624,800 for General Fund Departments and D-DOT with DWSD and Public Library financing their share of the cost from their own revenue sources. Future years' financing requirements will be incorporated in annual actuarial valuation reports over a fifteen (15) year amortization period. The second report provides the cost estimate to increase the pension factor from 1.63% to 1.7% of AFC for all service years over ten (10) for pre-July 1, 1992 retirees, and then on to 1.9% of AFC for all service years beyond twenty (20) years. First year General Fund cost under this set of circumstances is \$1,496,700, with

all other factors remaining stable. The DRCEA will concentrate its efforts on getting these two (2) pension improvements implemented in our future year budget requests.

While these cost figures may appear staggering to your Honorable Body, they do decrease quickly in future years, as death plays a nasty role in diminishing the size of this oldest and poorest group of General City Retirees.

Again, the DRCEA thanks your Honorable Body for the opportunity to appear before you to discuss the issues and concerns of retirees. We wish you the greatest success in resolving the City's current fiscal problems so we can all move forward to a better tomorrow.

Respectfully submitted,

SHIRLEY V. LIGHTSEY
PRESIDENT, DRCEA

A handwritten signature in cursive script, reading "Shirley V. Lightsey", written over a horizontal line.

Cc: Irvin Corley, Fiscal Analysis Division Director

Attachments

ATTACHMENT A

Beginning July 1, 1992, retiree pension benefits of General City Retirees were significantly changed. All retirees who had retired prior to the above date had their service factor increased from 1.4% to 1.5% of average final compensation (AFC) multiplied by their total years of service in calculating their straight life pension, with AFC set at the best five (5) of the last ten (10) years of service.

Those employees who retired on or after July 1, 1992 were to have their straight life pension calculated as follows: 1.5% of AFC for each of the first ten (10) years of service, 1.7% of AFC for each of the next ten (10) years of service, and 1.9% of AFC for each of the remaining years of service, with AFC set at the best four (4) of the last ten (10) years of service and longevity pay was included in AFC. Thus, we now have two (2) different Pension Plans for General City Retirees.

Effective July 1, 1998, employees who retired on or after this date were granted an improved Pension Plan as follows: 1.6% of AFC for each of the first ten (10) years of service, 1.8% of AFC for each of the next ten (10) years of service, 2.0% of AFC for each year twenty-one (21) through twenty-five (25), and 2.2% of AFC for each year of service over twenty-five (25) years with AFC set at the best three (3) of the last ten (10) years of service. No further adjustments were made in the other two (2) Pension Plans.

As a result, we now have three (3) different Pension Plans for General City Retirees.

CITY OF DETROIT GENERAL RETIREMENT SYSTEM
PROPOSED PENSION INCREASE FOR PRE-7/1/92 RETIREES AND BENEFICIARIES
AS OF JUNE 30, 2009

Requested By: Ms. Shirley Lightsey, Detroit Retired City Employees' Association
Date: March 26, 2010
Submitted By: Norman L. Jones, FSA, EA, MAAA and Judith A. Kermans, EA, MAAA
Gabriel, Roeder, Smith & Company

This report presents results of actuarial valuations regarding proposed changes in benefits for certain retired members of the City of Detroit General Retirement System. The actuaries issuing this report are Members of the American Academy of Actuaries and meet the Qualification Standards of the American Academy of Actuaries to render the actuarial opinions contained herein.

The data used in this valuation was that supplied for the regular annual actuarial valuation of the City of Detroit General Retirement System as of June 30, 2009, which is not yet complete. However, we have used a valuation date for this study of June 30, 2009. This means that the results of the supplemental valuations indicate what the June 30, 2009 valuation will show if the proposed benefit changes had been in effect on that date. Supplemental valuations do not predict the result of future actuarial valuations. Rather, supplemental valuations give an indication of the probable long-term cost of the benefit change only without comment on the complete end result of the future valuations. Actuarial assumptions and methods were consistent with those used in the regular actuarial valuation of the Retirement System on the valuation date, unless otherwise noted. Actuarial assumptions are adopted by the Retirement Board of Trustees. In particular:

- The assumed rate of interest was 7.9%.
- Payroll was assumed to increase 4.0% per year.
- Changes in Accrued Liability were amortized over 15 years.

It is our understanding that benefits for current active and terminated vested members would not be affected by the proposed benefit changes. They were excluded from this study. A brief summary of the data, as of June 30, 2009, used in this valuation is presented below. For any retiree data used in the study that did not have service information, we assumed 25 years of service at time of retirement.

Group	Retired Before 7/1/92	
	Number	Annual Pensions (\$ millions)
General City	3,310	\$37.8
D-DOT	665	7.5
Water	530	6.7
Sewage	122	1.5
Library	83	1.1
Total	4,710	54.6

CITY OF DETROIT GENERAL RETIREMENT SYSTEM
PROPOSED PENSION INCREASE FOR PRE-7/1/92 RETIREES AND BENEFICIARIES
AS OF JUNE 30, 2009

PRESENT PROVISIONS: Pensions are based on a pension multiplier graded by service as follows:

1.5% for first 10 years of service
1.63% for service in excess of 10 years

PROPOSAL 1 PROVISIONS: Effective 7/1/2010, increase the multiplier for years of service over 10 for pre-July 1, 1992 retirees to 1.7%

Actuarial Statement

The financial effect of the proposal is shown below:

	General City	D-DOT	Water	Sewage	Library	Total
• Increase in actuarial accrued liabilities	\$5,891,862	\$1,151,892	\$1,073,784	\$245,589	\$147,646	\$8,510,773
• 15 year amortization of liability increase						
- % of covered payroll	0.26%	0.20%	0.18%	0.06%	0.08%	0.21%
- 1 st year dollars based on valuation payroll	\$ 520,868	\$ 103,935	\$ 97,433	\$ 20,852	\$ 12,711	\$ 755,799

Comments Regarding the Proposal

The figures shown above are based on the June 30, 2009 actuarial valuation. Please remember that these changes, if adopted, would likely first impact the June 30, 2010 valuation.

CITY OF DETROIT GENERAL RETIREMENT SYSTEM
PROPOSED PENSION INCREASE FOR PRE-7/1/92 RETIREES AND BENEFICIARIES
AS OF JUNE 30, 2009

PRESENT PROVISIONS: Pensions are based on a pension multiplier graded by service as follows:

1.5% for first 10 years of service
1.63% for service in excess of 10 years

PROPOSAL 2 PROVISIONS: Effective 7/1/2010, for pre-July 1, 1992 retirees increase the multiplier for years of service over 10 to 1.7% and increase the multiplier for years of service over 20 to 1.9%

Actuarial Statement

The financial effect of the proposal is shown below:

	General City	D-DOT	Water	Sewage	Library	Total
• Increase in actuarial accrued liabilities	\$14,009,452	\$2,872,839	\$2,613,849	\$554,599	\$359,686	\$20,410,425
• 15 year amortization of liability increase						
- % of covered payroll	0.62%	0.49%	0.43%	0.14%	0.20%	0.51%
- 1 st year dollars based on valuation payroll	\$ 1,242,069	\$ 254,640	\$ 232,757	\$ 48,654	\$ 31,779	\$ 1,809,899

Comments Regarding the Proposal

The figures shown above are based on the June 30, 2009 actuarial valuation. Please remember that these changes, if adopted, would likely impact the June 30, 2010 valuation.

CITY OF DETROIT GENERAL RETIREMENT SYSTEM
PROPOSED PENSION INCREASE FOR PRE-7/1/92 RETIREES AND BENEFICIARIES
AS OF JUNE 30, 2009

Comments

Comment 1 — It was assumed that base pensions upon which future increases are based would not change. Increases in the multiplier higher or lower than 0.07% for service in excess of 10 years under Proposal 1 would be approximately proportional to the results shown in the first proposal. The second proposal is non-linear.

Comment 2 — The calculations are based upon assumptions regarding future events, which may or may not materialize. They are also based upon present and proposed plan provisions that are outlined in the report. If you have reason to believe that the assumptions that were used are unreasonable, that the plan provisions are incorrectly described, that important plan provisions relevant to this proposal are not described, or that conditions have changed since the calculations were made, you should contact the author of this report prior to relying on information in the report.

Comment 3 — This report is intended to describe the financial effect of the proposed plan changes. No statement in this report is intended to be interpreted as a recommendation in favor of the changes, or in opposition to them.

Comment 4 — In the event that more than one plan change is being considered, it is very important to remember that the results of separate actuarial valuations cannot generally be added together to produce a correct estimate of the combined effect of all of the changes. The total can be considerably greater than the sum of the parts due to the interaction of various plan provisions with each other, and with the assumptions that must be used.

Comment 5 — This report is intended to describe the financial effect of the proposed plan changes on the retirement system. Potential effects on other benefit plans were not considered.

Comment 6 — The reader of this report should keep in mind that actuarial calculations are mathematical estimates based on current data and assumptions about future events (which may or may not materialize). Please note that actuarial calculations can and do vary from one valuation year to the next, sometimes significantly if the group valued is very small (less than 30 lives). As a result, the cost impact of a benefit change may fluctuate over time, as the demographics of the group changes.